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## **2005 Third Quarter Progress Report**

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# SUPPORTING ECONOMIC GROWTH AND ANALYSIS II

Quarterly Report April 1, 2005 – June 30, 2005

## DISCLAIMER

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## INTRODUCTION

The Support for Economic Growth and Analysis and Mandela Economics Scholars Program II (SEGA II) began on August 27, 2004 and continues through August 26, 2007. SEGA II has been designed to support the Economics Capacity Strategic Objective of the USAID South Africa results framework. This third quarterly report of SEGA II documents progress made towards achieving USAID's objectives for this program as reflected in the Statement of Work:

- Working with public sector agencies and civil society organizations, perform policy reform analyses that will improve the policy and regulatory environment that reduces poverty and unemployment within a supportive macro-economic environment (emphasizing small business development, trade, investment and intellectual property rights, agriculture and land reform and socio-economic impacts of HIV/AIDS in South Africa).
- Working with these same institutions, and employing both formal and informal training mechanisms, builds South African capacity for policy reform concerning selected priority issues relevant to improving the economic environment in South Africa.
- Collaborate with other donors, in particular the UK's Department for International Development (DFID), in achieving these results.

## SUMMARY OF ACHIEVEMENTS

As Segga II enters the last quarter of 2005 we are beginning to see good progress and results across most technical areas. MESP bursaries have been awarded, Parliamentary Training will commence soon, and research has begun on a number of key economic policy issues.

Highlights from the third quarter include:

- Segga II has developed an extensive work program with the National Treasury with a strong focus on poverty alleviation and economic growth. The first two SIPP projects are now well underway and another four are expected to begin in the next half-year. A new program of work on investment incentives and industrial policy has also begun.
- The COSATU/DTI Trade and Poverty Project is attracting increased interest from donors, policy-makers and researchers. It now involves 16 different studies and 20 researchers. Preliminary results from the first round of studies are expected in the next quarter.

## TECHNICAL AREAS

While the SEGA II statement of work is diverse, it is clearly unified by its focus on capacity development and a strong orientation towards poverty and unemployment. It identifies 10 technical areas (of which seven are now active) covering a wide range of issues and clients. In each area, activities have been designed to enhance the capacity of government, its regulators, NGO's and universities to design and implement economic policy in South Africa. This is to be achieved through policy research, technical advice and a variety of short and longer term training modules. Progress, by each technical area and activity, is described below and summarized in Annex A.

### **TA 1: STRENGTHENING THE IMPACT OF PRO-POOR PROGRAMS (SIPP)**

SIPP is co-funded by DFID and was established to assist the National Treasury (NT) to incorporate pro-poor concerns into its tax and spending programs. In late 2004, NT conducted its own internal call for proposals, from which 14 research projects were short-listed. This shortlist was then submitted to NT's research committee (a panel of four Deputy Director Generals) for approval. Five projects were approved for priority implementations of which two have now been implemented: an extensive analysis of the patterns and determinants of poverty and vulnerability in rural South Africa; and a desktop analysis of the importance of the child support grant within different households and for household members and its possible impact on poverty alleviation.

Another two SIPP projects were expected to commence this quarter. The baseline study of the primary school nutrition program has been delayed to allow the preferred contractor time to finalize the scope of this project with the Department of Education. This study is expected to commence soon. A contract to develop a demographic model to assist the National Treasury in projecting the long-term size of and distribution of the government's major social grants was awarded in this quarter; though work is likely to begin in quarter 4 (see Box 1.). In addition, the proposed inter-governmental workshop on the policy implications of recent poverty analysis was postponed by the National Treasury and is likely to take place later this year.

The Treasury conducted a second call for SIPP proposals in quarter 3, from which two additional projects were selected for implementation under Seg II. The first, a study of the economic impact of South Africa's various land and agricultural policy initiatives in four pilot sites, will be jointly undertaken by HSRC and PLAAS. Contract negotiations are currently underway and research is likely to begin towards the end of the calendar year. The second proposal, to evaluate the long-term trajectory of South Africa's expenditure on higher education, is likely to be submitted for open tender in quarter four.

**Box 1**
**Projecting Social Grants**

The fifth SIPP study involves the development of a demographic model to assist the National Treasury in projecting the long-term size and distribution of the government's major social grant programs: old age pensions; disability grants; and the child support grant. Expenditure on these grants has risen fourfold over the last decade to around R50 billion in 2005/06 (approximately 11.5% of the total budget, or 3.3% of GDP), reaching about 10 million South Africans.

Latest estimates (2005/06) of the cost and number of beneficiaries of the three main grants are provided in the National Treasury Estimates of National Expenditure (ENE) 2005:

	<i>Cost</i>	<i>Beneficiaries</i>
Old Age Pensions	R20 billion	2.1 million
Disability and Care Dependency Grants	R14.4 billion	1.5 million
Child Support Grant	R15 billion	7 million

The Segafunded modeling exercise will incorporate population projections from Statistics South Africa and the Actuarial Society; and will require the development of new assumptions about changes in economic growth, employment and income and expenditure. The resulting model will improve Government's ability to budget and monitor these programs for the period 2005-2015.

**TA 2: PARLIAMENTARY TRAINING**

SEGA/MESP (implemented by Nathan Associates) provided extensive formal economic training to South African parliamentarians over the last 6 years. USAID funding for this training is to conclude this year and SEGA II is currently negotiating the transfer of this program to Parliament. To assist, USAID has agreed to a final payment for Parliamentary Training for this calendar year, to take place in the next quarter. SEGA II will continue to explore alternative and more cost-efficient means of support to Parliament in contract years 2 and 3.

### **TA 3: MICROFINANCE POLICY REFORM**

Access to affordable finance is a real constraint to economic development in South Africa. Poor South Africans are unable to access the formal banking sector and pay extraordinary high rates (21-30% per month) in consumer credit markets. The Micro-finance Regulatory Council (MFRC) has done well to reduce predatory lending and a new Consumer Credit Bill has been written to improve regulation in the non-banking sector. SEGA II will continue to work with the MFRC in building analytical and policy formulation capacity and to help Government in the implementation of this new Bill.

The MFRC has identified one study for priority funding from USAID (PRIME). This involves contracting 3 international experts to assist in the development and evaluation of a methodology for determining interest and fee limitations, as envisaged in the Consumer Credit Bill. The MFRC has also approached SEGA II for assistance in the funding of a long-term adviser to support the MFRC in the establishment of a National Credit Regulator and Credit Bureaux. An appropriate long-term adviser has been identified and will begin work in quarter 4. A number of additional studies are in an early planning stage and are likely to begin in late 2005.

### **TA 4: AGRICULTURE AND LAND REFORM**

SEGA II is funding follow-up work on the Evictions Pilot Study recently completed under SEGA / MESP. An advanced statistical tool has been developed and tested and the research team is now undertaking a national survey to measure the extent and impact of farm evictions in South Africa. The study is due to be completed in mid 2006. The results from this research will contribute to the Department of Land Affairs policy on land evictions and help Government to identify and assist the most vulnerable communities. SEGA II is also exploring ways to assist The Department of Land Affairs (DLA) in the implementation of legislation to transfer public land to the communities that live on this land (Community Land Rights Act, CLRA).

### **TA 5: HIV/AIDS**

South Africa has one of the fastest growing HIV/AIDS epidemics in the world. By 2001, the adult prevalence rate reached 20.1 percent with more than 5.0 million people infected and 50,000 new infections per month. It is now broadly accepted that this pandemic will have an adverse impact on the economy, leading to rising poverty and inequality, but many of the channels through which this will occur remain largely unexplored. SEGA II will tackle two broad areas of work on the economics of HIV/AIDS. First, the program will assist government in costing and monitoring the impact of HIV/AIDS on health care workers and the delivery of basic care and treatment to HIV/AIDS patients. Secondly, SEGA II will support analysis of the impact of HIV/AIDS on the macro-economy and different industry sectors.

Three large studies have already begun: an assessment of the cost and efficiency of different home- and community-based care (HCBC) models (see Box 2); an evaluation of the roll-out of ARV treatment at specific pilot sites in the Free State Province; and an analysis of the prevalence of HIV/AIDS amongst professional nurses. The first two studies will be chiefly funded from PEPFAR, whereas SEGA II's contribution to the third project is the last of four instalments from USAID to this particular study (the first three phases were funded by SEGA/MESP).

## Box 2

### **Assessment of the Costs and Effectiveness of Home Community Based Care (HCBC) Programmes.**

SEGA II is funding a study to assess the costs and effectiveness of different models of Home Community Based Care in the country (HCBC). The assessment conducted by the *Wits Health Consortium/Health Economics Research* will involve a number of HCBC organizations in Mpumalanga, Limpopo, Eastern Cape and KwaZulu-Natal.

The purpose of the study is to conduct an extensive review of local and international literature on HCBC programmes which will inform the development of practical methodology for evaluating and costing HCBC. The study will also identify and investigate current HCBC models, leading to the development of a model for costing and evaluating the effectiveness of the various approaches of HCBC. Lastly, the study will recommend appropriate models for scaling up these programmes in South Africa. Some of the main points emerging from the literature review are discussed below.

According to the available literature, there are numerous HCBC models in existence in both developed and developing countries. Most of these programmes have emanated as a result of the mounting pressure on health care systems, and from the growing burden of HIV/AIDS related illness.

The literature suggests that HCBC programmes are an effective way of involving families and communities in the care and support of patients; they also reduce the pressure on public health resources. Danziger presents evidence that HCBC helps to reduce the length of hospital stay. In Zambia, the introduction of HCBC reduced the average length of stay from 32 days to 16 days, thereby lowering the cost of care. Further, it is stated that HCBC tends to promote greater acceptance of HIV/AIDS in the community.

In South Africa, most of these programmes are managed by Non Governmental Organisations (NGOs) and Community Based Organisations (CBOs). They are either operated with full time paid personnel, and volunteers; or by skilled, semi-skilled unskilled or unskilled community workers, which gives rise to services of differing cost and quality.

There are a number of limitations associated with the literature. Although many models of HCBC have been identified in the literature, very few cost analyses have been published, and those that do exist are difficult to interpret and compare. Also, very few studies have estimated the cost of delivering specific services; instead, results are reported for broad cost centres, which do not allow specific interventions to be costed without further in-depth interviews. Most costs therefore relate to the overall cost of home based care or the cost per visit. Further, information on costs is scanty, not all HCBC have formalized structures for collecting information required for cost analysis.



#### **TA 6: REGULATORY REFORM**

There is unlikely to be any work in this TA in the first year of the project. SEGA II will continue to monitor developments in this area and will inform USAID if any prospective activities arise for future consideration.

#### **TA 7: ENVIRONMENTAL ECONOMICS POLICY**

There is unlikely to be any work in this TA in the first year of the project. SEGA II will continue to monitor developments in this area and will inform USAID if any prospective activities arise for future consideration.

#### **TA 8: INTELLECTUAL PROPERTY RIGHTS**

There is unlikely to be any work in this TA in the first year of the project. SEGA II will continue to monitor developments in this area and will inform USAID if any prospective activities arise for future consideration.

#### **TA 9: SUPPORT FOR HIGHER EDUCATION**

SEGA/MESP has provided foreign (MESP I) and local (MESP II) bursaries to a large number of South African economics students. SEGA II has taken over the management and payment of the final year of MESP II students, located in the Universities of Stellenbosch, Cape Town and Kwa-Zulu Natal. In total, SEGA II will provide financial support to 23 students over the course of 2005.

SEGA/MESP also supported the University of the Western Cape as a ‘Center of Economic Excellence (CEE)’. This funding will come to an end in December 2005 and SEGA II will see this activity through to completion.

#### **TA 10: COMPLEMENTARY ACTIVITIES**

The above technical areas cover most of the key aspects of poverty and unemployment in South Africa, but not all. Notable exceptions include private sector development issues and the impact of globalization on trade, investment, employment and the poor.

SEGA II has worked with South Africa’s largest trade union federation (COSATU) to assist them in developing a research proposal to understand the impact of trade reform on the poor. DFID and the DTI have agreed to contribute significant funding to this project, which now

includes 16 sub-components and about 20 different researchers. Research work has now begun and SEGA II will continue to provide technical and administrative support to this project. SEGA II will also fund a third and final trade workshop later this year to help develop capacity amongst the leadership of the country's three labor federations (COSATU, FEDUSA, NACTU). The South African Institute for International Affairs (SAIIA) study of the determinants and implications of South Africa's regional trade policy has been completed and will be published as a book in the next quarter.

To assist private sector development, SEGA II is providing ongoing advice to the National Treasury on the costs and benefits of different kinds of industrial policy instruments. This will include a review of different kinds of sector specific interventions, such as the motor industry development program and investment incentives, as well as a number of cross-cutting issues such as trade and telecommunications tariffs (see Box 3.). In this quarter, a draft policy brief on *Incentives, Industrial Policy and Growth in South Africa* was submitted to the National Treasury. This work is being co-sponsored by the USAID RCSA Project in Botswana.

Finally, SEGA II continues to enhance economic capacity within and beyond Government through focused short-term assistance and training. In the third quarter of 2005, this included further assistance the Southern African Tax Institute.

**Box 3**
**Instrument of Industrial Policy**

Lall (2004) provides a stylized summary of the main areas and instruments of industrial policy in East Asia. This has been modified and ‘generalized’ in the table below. This table reveals a number of important ‘facts’ about industrial policy. Firstly, policy makers have a vast armoury of interventions to choose from: some protectionist and some outward orientated; some of which apply to specific industries (‘selective’) and others that have more general effects (‘functional’). Secondly, the net impact of different combinations of interventions is complex and is likely to differ markedly by country and industry. And finally, government institutions have a key role to play in designing and implementing effective policies and coordinating the activities of different economic actors.

	Trade	Investment	Enterprise Development	Technology
Selective	Tariffs	State enterprises	Infant industry protection	Technology parks
	Export targeting	Specific tax incentives	Regulation of competition	Research institutes
	Subsidised credit	Investment Targeting	Administrative guidance	Purchases of foreign technology
	Import and forex controls	Subsidies	Price and local content controls	License restrictions
Functional	Exchange rate	Infrastructure support	Local ownership	R&D grants and incentives
	Export promotion	Fiscal and tax policy	Government procurement	Innovation financing
	IDZ/EPZ	Economic stability	Support for SMEs	Training and skills development

South Africa’s experience with industrial policy has received less attention and acclaim than that of East Asia, but it has been no less ambitious. Over the last few decades, every one of the instruments presented in the table above has been employed in some form and with mixed effect. A complete review of South Africa’s approach to industrial policy would certainly be useful but is well beyond the scope of this project. Instead, the project will focus on a few illustrative studies of priority sectors and instruments.

## BENCHMARKS

The following table provides a summary of the key objectives and results for SEGA II, as established by USAID and included in the Task Order. Existing targets, taken from the Performance Monitoring Plan for USAID/South Africa's Economics Capacity Building Strategic Objective, have been added to show some of the proposed contributions of SEGA II and to facilitate USAID monitoring of the progress of the project.

	<i>Objectives</i>	<b>2005 (Aug-27-2004 to Aug-26-2005)</b>		<b>2005 Quarters 1, 2 and 3</b>	
		<i>Anticipated results</i>	<i>Proposed SEGA II Targets</i>	<i>Performance</i>	<i>Comment</i>
Sustainable capacity-building	<b>Strengthen human resources in economics and policy</b>	Number of historically disadvantaged people completing long term advanced degrees and placed in jobs as economists	N/A	N/A	MESP ended
		Number of people selected for training	N/A	N/A	MESP ended
		Gender Equity – percent women trained	N/A	N/A	MESP ended
		Proportion of graduates working for government	N/A	N/A	MESP ended
	<b>Strengthen centers of economic excellence in teaching and research at historically disadvantaged universities.</b>	Full-time equivalent students	N/A	N/A	Program ended
		Outreach programs with govt, Parl., bus., NGOs	N/A	N/A	Program ended
		Quality Research papers	N/A	N/A	Program ended
Assessments and analyses	<b>Strengthen government departments that deal with policy matters.</b>	Number of directorates strengthened	5	8	NT: 4; DoE: 1; DLA: 1; DTI: 2
		Number of quality policy studies completed	30	-	Awaiting NT 'approval' of 3 deliverables
		People in economics training	200	103	2 SAM Workshops; COSATU; Parliamentary training; CCMA
		Gender Equity – Women in Training	40%	27%	
	<b>Strengthen think tanks to formulate and deal with economic policy options.</b>	Number of quality studies produced	10	-	Drafts of 12 papers received
		Number of seminar, conferences, and workshops attended by think tanks.	8	5	Trade and poverty (NEDLAC); 2 SAM workshops; JEAPP; SACU
		Black professionals working on assisted activities	20	7	PLAAS, DPRU, Social Surveys, SAIIA, JEAPP
		Gender equity – professional women working on assisted activities	12	6	PLAAS, DPRU, Social Surveys, JEAPP

## DELIVERABLES

The following deliverables were prepared during the period April 1, 2005 – June 30, 2005.

Technical Area	Activity	Date	Document title.type
SIPP	Intra-household dynamics	10 May 2005	DPRU Draft.doc
SIPP	Land-based vulnerability	18 May 2005	PLAAS Workshop 19 May 2005.pdf
Land reform	Evictions	30 June 2005	Land Eviction Progress Report.doc
HIV/AIDS	HCBC	17 May 2005	HCBC Literature Review.doc
Complementary	Trade and poverty	7 June 2005	Trade&Poverty ToR.doc
Complementary	Trade and poverty	29 June 2005	SA Trade and Poverty.doc
Complementary	Industrial policy	6 June 2005	Incentives and Industrial Policy.doc

## ANNEX A: SUMMARY OF ACTIVITIES

Project	Description	Objective	Indicative Budget \$	Status
<b>TA1: Strengthening the Impact of Pro-poor Programs (SIPP)</b>				
Poverty workshop	Discussion of key research questions and gaps, between leading academics and senior policy makers	To promote evidence-based policy making	15 000	Postponed
Land-based vulnerability, labor markets and social protection	Analysis of the patterns and determinants of vulnerability and food security in rural South Africa; and a review of government policies in these areas	To recommend new and better policies	295 000	Approved and work has begun
Intra-household dynamics in resource allocation	Analysis of the flows of social grants to different types of households and the impact of these grants on household members	To evaluate the allocation and effectiveness of social grants	30 000	Approved and work has begun
Primary School Nutrition Program	Baseline study and evaluation of the reach and effectiveness of the government's school feeding scheme	To provide baseline data for future M&E	175 000	Scheduled to begin Aug 05
Social grants projections	Examination of population dynamics and the likely evolution of the economic position of welfare beneficiaries	To estimate the cost and improve targeting of social grants	60 000	Approved and scheduled to begin July 05
Cost of higher education	Assessment of the present and future costs, and the long-term financial sustainability of the higher education system.	To develop a financial model for education planning	-	Awaiting final ToR and tender
Rural municipality case studies	Analysis of the economic impact of land reform projects in four pilot sites.	To clarify the economic case for land reform	75 000	Under negotiation
<b>TA2: Parliamentary training</b>				
Parliamentary training	Formal economic training and support to Parliamentarians, especially the Budget Committee.	To improve economic knowledge and capacity in Parliament	150 000	Awaiting final budget from service providers
<b>TA3: Microfinance policy reform</b>				
Consumer Credit Act	Evaluation of credit conditions and interest rates in different consumer credit markets	To recommend methodology for determination of interest rate ceilings	60 000	Approved and work has begun
Long-term adviser on Microfinance Policy	Design and implementation of National Credit Regulator and development of framework for credit providers	Design a regulatory regime for the Credit Bureau	230 000	Approved and scheduled to begin Aug 05

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**TA4: Agriculture and land reform**


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Evictions - national survey	National survey of incidence and socio-economic impact of farm evictions	To inform policy on land evictions and highlight vulnerable communities	150 000	Approved and work has begun
Technical adviser to DLA	Provision of full-time or part-time technical adviser to DLA	To coordinate research and monitoring activities	200 000	Awaiting formal confirmation from Department of Land Affairs
CLRA pilot studies	Design and implementation of CLRA pilot studies in three different provinces.	To monitor and evaluate implementation of the CLRA		

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**TA5: HIV/AIDS**


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Home and Community Based Care (HCBC)	Assessment of characteristics, cost and efficiency of different HCBC models	To recommend appropriate models for scaling up HCBC programs	190 000	Approved and work has begun
Roll-out of ARV treatment in the Free State Province	Monitoring and evaluation of the roll-out of ARV treatment at specific pilot sites	To highlight progress and obstacles to ARV roll-out	150 000	Scheduled to begin Sept 05 pending CO approval
Impact of HIV/AIDS on health care workers	Analysis of the prevalence of HIV/AIDS amongst professional nurses its impact on attrition and productivity	To assist in human resource development and planning	85 000	Scheduled to begin Aug 05 pending CO approval
Macroeconomic impact study	Evaluation of the economic impact of HIV/AIDS, by sector	To demonstrate the economic cost of HIV/AIDS	20 000	Scheduled to begin Sept 05
SA Journals of Economics and Development Perspectives	Publication of special editions, focusing on the economics of HIV/AIDS	To publicize research in this area	20 000	Scheduled for publication Aug 05

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**TA9: Support for higher education**


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MESP 1	Provision of bursaries and support to South African students to undertake post-graduate studies in the USA	To facilitate post-graduate education in economics amongst historically disadvantaged students	-	Ends Dec 05
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MESP 2	Provision of bursaries and support to select academic departments and courses	To facilitate post-graduate education in economics amongst historically disadvantaged students	130 000	Ends Dec 05
UWC / Center of Economic Excellence (CEE)	Financial support and assistance to the economics department at UWC	To develop and sustain a CEE at UWC	35 000	Ends Dec 05
Placements and internships	Assistance to MESP graduates in finding employment in Government departments or agencies	To help graduates find permanent and appropriate employment	10 000	Ends Dec 05

***TA10: Complimentary activities***

Development through trade	Provision of support to South African Institute of International Affairs' (SAIIA) trade research and advocacy program	To inform policy makers and business leaders on trade policy developments	35 000	Approved and work has begun
Trade training for union leadership	Facilitation of two workshops on trade theory and policy for union leadership	To inform union members and leaders on trade policy developments	50 000	Workshop 1 complete Nov 04 Workshop 2 scheduled for late-05
Industrial policy and incentives	Analysis of the relative impact of investment incentives and other investment support initiatives on business decisions and investment	To inform policy makers on optimal investment policy	60 000	Phase 1 Completed. Work has begun on phase 2.
Southern Africa Tax Institute (SATI)	Support to SATI training courses	To enhance tax knowledge amongst policy makers	10 000	First installment paid June 05.
Trade and poverty	Various household and case study analyses of the relationship between trade and poverty.	To understand the way in which trade impacts upon poverty in SA.	50 000	Work has begun